Alberta

2014–15 **Third Quarter** Fiscal Update and Economic Statement

February 2015

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NOTE: Amounts presented in tables may not add to totals due to rounding.

Alberta

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For the first nine months of 2014–15

Method of Consolidation

The Fiscal Plan basis reported in the *2014-15 Third Quarter Fiscal Update and Economic Statement* reports on the same scope, using the same method of consolidation, as presented in *Budget 2014*.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, computed in accordance with International Financial Reporting Standards applicable to those entities.

The Consolidated Financial Statements basis reported in the Government of Alberta Annual Report adds the annual non-cash change in pension provisions, and the accounts of the Alberta Innovates corporations, Alberta Environmental Monitoring, Evaluation and Reporting Agency and the Crown-controlled SUCH sector organizations (school boards, universities, colleges, technical institutes, and health entities) that are controlled by the government, on a line-by-line basis. Adjustments have been added to reflect the forecast net consolidated impact to the Fiscal Plan basis bottom line of pension provisions and the various excluded entities, in order to provide a forecast of the 2014-15 results on the Consolidated Financial Statements basis.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Transfers received for capital purposes, and donated capital assets, are recorded as revenue as the cash is used to acquire capital assets and the donated assets are added to the balance sheet. The accounting policy followed in the Consolidated Financial Statements is to record a "deferred capital contribution," similar to a liability, when the cash or asset is received, and to recognize the revenue over the related asset's useful life (in effect matching the asset's amortization expense). This difference in accounting policy is eliminated through the adjustments referred to previously.

Expense includes the province's cash payments towards the unfunded pension liabilities. Expense on the Fiscal Plan basis excludes the change in the unfunded pension liabilities, which is a non-cash expense. This is included in expense on the Consolidated Financial Statements basis, and an adjustment is made as noted previously.

Debt servicing costs include interest payable, and amortization of issue costs and discounts / premiums on debt issues.

Compliance with Legislation

The *Fiscal Management Act* requires reporting on the Fiscal Plan basis actual results for the first nine months of the fiscal year (April 1 to December 31), on or before February 28. The Act gives the President of Treasury Board and Minister of Finance discretion over the form of the report.

The *2014-15 Third Quarter Fiscal Update and Economic Statement* provides comparisons between the nine month estimates and actual results for: revenue and operational expense; the operational surplus / (deficit); the Capital Plan; and financing (borrowing) requirements. An updated Alberta economic outlook, with associated assumptions, is also provided.

The report also now includes forecasts for the full fiscal year for these, as well as for total expense, the resulting change in net assets and a balance sheet on the Fiscal Plan basis. An estimate of the surplus / (deficit) on the Consolidated Financial Statements basis has been added.

Under the *Fiscal Management Act*, operating expense increases, excluding those for dedicated revenue-operating expense, collective bargaining or other remuneration settlements, or settlements with First Nations, are limited to 1% of total budgeted ministry operating expense. Actual operational expense for a fiscal year also cannot exceed operational revenue plus any amounts allocated from the Contingency Account.

This report, and results for the first nine months of 2014-15, are in compliance with the requirements of the *Fiscal Management Act*.

2014-15 THIRD QUARTER FISCAL UPDATE

Fiscal Plan Highlights

Income Statement

On the Fiscal Plan basis, actual results for the first nine months (April to December) of 2014-15 produced an operational surplus of $4.3 billion, $2.2 billion higher than estimated in *Budget 2014*, due primarily to increased revenue. The operational surplus for the fiscal year is forecast at $2.2 billion, a $417 million decrease from budget.

The change in net assets (surplus / deficit) is revenue minus total expense. Total expense is operational expense plus capital grants and capital debt servicing costs. The surplus / deficit is forecast at $465 million, $622 million lower than budget. The decrease from budget is mainly due to increased operating, endowment, disaster assistance and capital grant expense, partly offset by higher revenue and lower Capital Plan debt servicing costs.

On the Consolidated Financial Statements basis (includes revenue and expense of SUCH sector entities, environmental monitoring agency and Alberta Innovates corporations, and the change in pension provisions), results are forecast as a $361 million surplus, a $663 million improvement from the $302 million 2013-14 deficit. This reflects a $913 million decrease in the change in pension provisions, which were unusually high in 2013-14, a decrease of $290 million in the Fiscal Plan basis surplus and an improvement of $40 million in the net adjustment for the SUCH sector.

Revenue is forecast to be $44.8 billion, $397 million higher than estimated in *Budget 2014*.

- Resource revenue has decreased by $503 million to $8.7 billion, mainly due to lower forecast oil prices, higher costs of production and lower land lease sales. These are partly offset by lower forecasts for the light-heavy oil price differential and the US-Canadian dollar exchange rate, and higher natural gas production.
- The West Texas Intermediate oil price forecast has decreased from budget by US$15.98 to $79.24 per barrel, and the light-heavy differential forecast has declined from US$25 to US$17.49. The forecast Alberta Reference Price for gas has increased by 34 cents, to Cdn$3.63 per gigajoule, while the exchange rate has been decreased by 2.7 cents, to 88.3 US¢/Cdn$.
- Income tax revenue has increased by $161 million from *Budget 2014*, to $16.8 billion. Corporate income tax has increased $289 million, due to higher-than-expected cash receipts at the end of 2013-14 and in 2014. Personal income tax has decreased $128 million, mainly from lower forecasts for employment growth and primary household income.
- The investment income forecast has increased by $383 million due mainly to realization of gains in equity portfolios.
- The estimated $2.8 billion reported in 2013-14 for 2013 Alberta flood assistance expense has been revised down by $432 million. To reverse this prior-year expense, $432 million in "Refunds of expense" revenue is reported in 2014-15. Similarly, the $1.6 billion in reported 2013-14 federal transfer revenue is reduced, requiring a negative $244 million in federal transfer revenue in 2014-15.

Operational Expense is forecast at $41.2 billion, $802 million higher than estimated in *Budget 2014*.

- Operating expense is forecast at $39.1 billion, $600 million higher. Increases primarily for physician compensation, health sector settlements, drug costs, the Canada-Alberta Job Fund, Mountain Pine Beetle infestations, the Alberta Energy Regulator and various municipal programs have been partially offset by in-year savings.
- Endowment fund expense has increased $86 million, primarily due to Access to the Future Fund grants.
- Total disaster assistance is forecast at $451 million, an increase from budget of $96 million, comprising $150 million in forest-fire fighting costs, $108 million primarily for agriculture indemnities, $32 million for 2014 floods and $161 million for 2013 Alberta flood assistance.

Capital Grants are forecast to increase $285 million from budget, with a net $411 million increase in municipal grants partly offset by a $126 million reduction in other grants.

Capital Plan debt servicing costs are estimated to be $68 million lower due to a drop of $1.9 billion in borrowing.

Balance Sheet

The Contingency Account balance is forecast at $6.3 billion on March 31, 2015, $1.3 billion higher than estimated. This is due to a $1.4 billion reduction in net cash requirements, primarily from timing of energy royalty payments, $1.3 billion from 2013-14 year-end results, less the reduction in the operational surplus of $0.4 billion and a $1 billion increased transfer to the Capital Plan.

Liabilities for capital projects on March 31, 2015 are forecast to be $11.9 billion, $1.9 billion lower than expected, due to the $1 billion increased transfer from operational results, $0.7 billion in cash borrowed for the Capital Plan last year but not spent, $0.1 billion in higher capital revenue and $0.1 billion in lower 2014-15 Capital Plan spending.

FISCAL PLAN SUMMARY[a]

(millions of dollars)

Income Statement

Fiscal Plan basis

	First 9 months of 2014-15			Fiscal Year			Change
				2013-14	2014-15		from
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Revenue, less:	**33,279**	**35,331**	**2,052**	**45,293**	**44,354**	**44,751**	**397**
Revenue received for capital purposes	(354)	(376)	(22)	(491)	(560)	**(652)**	(92)
Investment income retained by Heritage Fund	(223)	(214)	9	(193)	(297)	**(285)**	12
Allocation for Capital Plan debt servicing costs	(315)	(259)	56	(230)	(421)	**(353)**	68
Operational Revenue	**32,387**	**34,483**	**2,096**	**44,379**	**43,076**	**43,461**	**385**
Operational Expense							
Operating expense (net of in-year savings)	29,002	28,719	(283)	37,462	38,477	**39,077**	600
Endowment fund / account expense	208	150	(58)	191	243	**329**	86
Disaster / emergency assistance	1	230	229	142	200	**290**	90
2013 Alberta flood assistance	106	102	(4)	2,758	155	**161**	6
Amortization / inventory consumption / disposal losses	730	697	(33)	967	997	**999**	2
General debt servicing costs	270	282	12	360	360	**378**	18
Total Operational Expense	**30,317**	**30,180**	**(137)**	**41,880**	**40,432**	**41,234**	**802**
Operational Surplus / (Deficit)	**2,070**	**4,303**	**2,232**	**2,499**	**2,644**	**2,227**	**(417)**
Revenue				**45,293**	**44,354**	**44,751**	**397**
Total Operational Expense, plus:				**41,880**	**40,432**	**41,234**	802
Capital grants				**2,428**	**2,414**	**2,699**	285
Capital Plan debt servicing costs				**230**	**421**	**353**	(68)
Total Expense				**44,538**	**43,267**	**44,286**	**1,019**
Change in Net Assets (Surplus / (Deficit))				**755**	**1,087**	**465**	**(622)**

Consolidated Financial Statements basis

				Change from 2013-14
SUCH sector / Alberta Innovates corporation net revenue / expense adjustments	**(309)**	**(485)**	**(269)**	40
Pension provisions	**(748)**	**(88)**	**165**	913
Surplus / (Deficit)	**(302)**	**514**	**361**	**663**

Balance Sheet

Fiscal Plan basis

	At March 31			Change
	2013-14	2014-15		from
	Actual	Budget	Forecast	2013-14
Financial Assets				
Heritage Fund and endowment funds	18,562	18,939	19,000	438
Contingency Account	4,658	5,000	6,286	1,628
Self-supporting lending organizations	18,205	20,205	20,200	1,995
Other financial assets	12,663	13,673	11,112	(1,551)
Total Financial Assets	**54,088**	**57,817**	**56,598**	**2,510**
Liabilities				
Liabilities for capital projects	8,724	13,790	11,928	3,204
Self-supporting lending organizations	16,358	18,027	18,027	1,669
Other liabilities	7,729	6,985	7,803	74
Total Liabilities	**32,811**	**38,802**	**37,758**	**4,947**
Net Financial Assets	**21,277**	**19,015**	**18,840**	**(2,437)**
Capital assets	23,707	27,056	26,609	2,902
Net Assets on Fiscal Plan basis	**44,984**	**46,071**	**45,449**	**465**
Change in Net Assets	**755**	**1,087**	**465**	**(290)**

[a] The Fiscal Plan basis under the *Fiscal Management Act* does not include revenue or expense of Crown-controlled SUCH sector organizations, the environmental monitoring agency or Alberta Innovates corporations, or changes in pension liabilities, and requires reporting of an Operational Surplus / Deficit. Estimates of the change in net assets on the Fiscal Plan basis, and of the adjustments required to calculate the surplus / deficit on the Consolidated Financial Statements basis, have been added. The 2014-15 Budget asset and liability numbers have been restated to reflect 2013-14 Actual results.

REVENUE

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Income Taxes							
Personal income tax	8,304	8,221	(83)	10,537	11,153	**11,025**	(128)
Corporate income tax	4,095	4,282	187	5,488	5,495	**5,784**	289
	12,399	**12,503**	**104**	**16,025**	**16,648**	**16,809**	**161**
Other Taxes							
Education property tax	1,370	1,410	40	1,860	1,902	**1,902**	-
Tobacco tax	708	690	(18)	922	930	**915**	(15)
Fuel tax	724	706	(18)	925	965	**965**	-
Insurance taxes	283	285	2	359	381	**384**	3
Freehold mineral rights tax	99	128	29	146	134	**143**	9
Tourism levy	70	72	2	87	90	**92**	2
	3,254	**3,291**	**37**	**4,299**	**4,402**	**4,401**	**(1)**
Non-Renewable Resource Revenue							
Bitumen royalty	4,151	4,815	664	5,222	5,579	**4,935**	(644)
Crude oil royalty	1,585	2,024	439	2,476	2,019	**2,114**	95
Natural gas and by-products royalty	583	903	320	1,103	823	**989**	166
Bonuses and sales of Crown leases	480	359	(121)	588	623	**486**	(137)
Rentals and fees	119	130	11	173	153	**166**	13
Coal royalty	9	11	2	16	12	**16**	4
	6,927	**8,241**	**1,314**	**9,578**	**9,209**	**8,706**	**(503)**
Transfers from Government of Canada							
Canada Health Transfer	2,799	2,734	(65)	2,612	3,731	**3,645**	(86)
Canada Social Transfer	1,097	1,089	(8)	1,410	1,463	**1,452**	(11)
Agriculture support programs	311	260	(51)	272	332	**304**	(28)
Labour market agreements	89	132	43	186	119	**170**	51
Infrastructure support	182	272	90	317	348	**369**	21
2013 Alberta flood assistance	-	(244)	(244)	1,582	-	**(244)**	(244)
Other	177	169	(8)	350	241	**241**	-
	4,655	**4,412**	**(243)**	**6,729**	**6,234**	**5,937**	**(297)**
Investment Income							
Alberta Heritage Savings Trust Fund	1,203	1,460	257	2,272	1,604	**1,867**	263
Endowment funds	208	282	74	393	277	**352**	75
Alberta Capital Finance Authority	208	221	13	278	278	**279**	1
Contingency Account	83	88	5	80	110	**112**	2
Agriculture Financial Services Corporation	93	97	4	118	124	**129**	5
Other	59	70	11	84	79	**116**	37
	1,854	**2,218**	**364**	**3,225**	**2,472**	**2,855**	**383**
Net Income from Government Business Enterprises							
AGLC - Gaming / lottery	1,112	1,145	33	1,484	1,483	**1,493**	10
AGLC - Liquor	559	607	48	747	745	**750**	5
Alberta Treasury Branches	233	258	25	280	310	**330**	20
Other	21	32	11	30	28	**43**	15
	1,925	**2,042**	**117**	**2,541**	**2,566**	**2,616**	**50**
Premiums, Fees and Licences							
Motor vehicle licences	386	386	-	492	515	**517**	2
Crop, hail and livestock insurance premiums	340	302	(38)	379	343	**308**	(35)
Energy industry levies	260	277	17	215	260	**296**	36
Land titles	66	71	5	86	88	**93**	5
Land and grazing	51	34	(17)	75	69	**69**	-
Supplementary health benefits premiums	40	36	(4)	50	53	**48**	(5)
Other	315	301	(14)	412	416	**465**	49
	1,458	**1,407**	**(51)**	**1,709**	**1,744**	**1,796**	**52**
Other							
AIMCo investment management charges	169	163	(6)	248	225	**225**	-
Fines and penalties	102	114	12	137	136	**136**	-
Refunds of expense	99	552	453	205	141	**581**	440
Climate change and emissions management	45	77	32	106	60	**107**	47
Miscellaneous	392	311	(81)	491	521	**582**	61
	807	**1,217**	**410**	**1,187**	**1,083**	**1,631**	**548**
Total Revenue	**33,279**	**35,331**	**2,052**	**45,293**	**44,354**	**44,751**	**397**

OPERATING EXPENSE BY MINISTRY[3]

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Aboriginal Relations	151	120	(31)	163	201	**188**	(13)
Agriculture and Rural Development	805	766	(37)	752	917	**897**	(20)
Culture and Tourism	191	187	(4)	262	292	**285**	(7)
Education	4,806	4,715	(91)	6,301	6,505	**6,523**	18
Energy	495	464	(31)	673	678	**682**	4
Environment and Sustainable Resource Development	431	427	(4)	539	576	**601**	25
Health	13,161	13,231	70	17,104	17,720	**17,876**	156
Human Services	3,038	3,053	15	3,875	4,083	**4,133**	50
Infrastructure	378	376	(2)	505	513	**518**	5
Innovation and Advanced Education	2,042	2,010	(32)	2,609	2,726	**2,713**	(13)
International and Intergovernmental Relations	30	24	(6)	32	39	**37**	(2)
Jobs, Skills, Training and Labour	132	102	(30)	135	167	**165**	(2)
Justice and Solicitor General	1,007	999	(8)	1,271	1,308	**1,312**	4
Municipal Affairs	225	173	(52)	236	276	**251**	(25)
Seniors	420	408	(12)	544	572	**568**	(4)
Service Alberta	155	156	1	236	235	**234**	(1)
Transportation	386	390	4	514	513	**524**	11
Treasury Board and Finance	1,039	1,034	(5)	1,571	1,404	**1,419**	15
Executive Council	21	18	(3)	27	28	**26**	(2)
Legislative Assembly	88	64	(24)	113	124	**125**	1
Less in-year savings	-	-	-	-	(400)	-	400
Total Operating Expense	**29,002**	**28,719**	**(283)**	**37,462**	**38,477**	**39,077**	**600**

[3] 2014-15 nine month Estimate and 2014-15 Budget numbers have been restated to reflect transfers between government departments made subsequent to *Budget 2014*, as established by Orders in Council 312/2014, 373/2014, 389/2014 and 472/2014 under the *Government Organization Act*, on July 23, September 15 and 25, and December 4 2014. 2013-14 Actual numbers have been restated on the *Budget 2014* basis, adjusted for transfers between departments made after *Budget 2014*.

DISASTER / EMERGENCY ASSISTANCE EXPENSE

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Agriculture and Rural Development	1	94	93	2	2	**108**	106
Environment and Sustainable Resource Development	-	136	136	102	-	**150**	150
Municipal Affairs	-	-	-	38	-	**32**	32
Unallocated	-	-	-	-	198	-	(198)
Total	**1**	**230**	**229**	**142**	**200**	**290**	**90**
2013 Alberta flood assistance:							
Aboriginal Relations	4	1	(3)	193	5	**6**	1
Agriculture and Rural Development	6	0	(6)	-	17	**1**	(16)
Culture and Tourism	6	4	(2)	4	8	**6**	(2)
Education	11	-	(11)	-	15	**4**	(11)
Environment and Sustainable Resource Development	10	22	12	1	13	**38**	25
Health	15	10	(5)	-	25	**17**	(8)
Human Services	7	3	(4)	65	8	**5**	(3)
Infrastructure	26	47	21	72	35	**56**	21
Municipal Affairs	21	12	(9)	2,416	28	**28**	-
Other	-	3	3	7	1	-	(1)
Total 2013 Alberta flood assistance	**106**	**102**	**(4)**	**2,758**	**155**	**161**	**6**
Total Disaster / Emergency Assistance	**107**	**332**	**225**	**2,900**	**355**	**451**	**96**

ENDOWMENT FUND / ACCOUNT EXPENSE

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Agriculture and Rural Development	7	2	(5)	-	9	**3**	(6)
Health	94	91	(3)	111	111	**116**	5
Innovation and Advanced Education	107	57	(50)	80	123	**210**	87
Total Endowment Fund / Account Expense	**208**	**150**	**(58)**	**191**	**243**	**329**	**86**

CAPITAL AMORTIZATION EXPENSE

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Aboriginal Relations	-	-	-	-	-	-	-
Agriculture and Rural Development	13	12	(1)	17	17	**17**	-
Culture and Tourism	2	2	-	3	3	**3**	-
Education	10	12	2	4	16	**16**	-
Energy	17	15	(2)	21	23	**23**	-
Environment and Sustainable Resource Development	42	39	(3)	51	55	**55**	-
Health	13	16	3	17	18	**20**	2
Human Services	8	8	-	10	11	**11**	-
Infrastructure	76	68	(8)	98	101	**101**	-
Innovation and Advanced Education	5	4	(1)	5	6	**6**	-
International and Intergovernmental Relations	-	-	-	-	-	-	-
Jobs, Skills, Training and Labour	-	1	1	2	-	**1**	1
Justice and Solicitor General	18	11	(7)	17	24	**24**	-
Municipal Affairs	2	2	-	2	3	**3**	-
Seniors	21	24	3	26	28	**32**	4
Service Alberta	31	30	(1)	43	44	**44**	-
Transportation	344	342	(2)	431	459	**455**	(4)
Treasury Board and Finance	15	12	(3)	16	21	**21**	-
Executive Council	-	-	-	-	-	-	-
Legislative Assembly	1	1	-	2	2	**2**	-
Total Amortization Expense	**618**	**599**	**(19)**	**764**	**832**	**834**	**2**

INVENTORY CONSUMPTION EXPENSE

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Environment and Sustainable Resource Development	1	1	-	1	1	**1**	-
Health	41	44	3	45	52	**53**	1
Infrastructure	36	14	(22)	26	50	**25**	(25)
Service Alberta	4	10	6	12	6	**14**	8
Transportation	28	28	-	49	50	**49**	(1)
Other	2	1	(1)	15	3	**3**	-
Total Inventory Consumption Expense	**112**	**98**	**(14)**	**148**	**162**	**145**	**(17)**

DEBT SERVICING COSTS

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
General							
Agriculture and Rural Development							
Agriculture Financial Services Corporation	54	54	-	68	73	**73**	-
Seniors							
Alberta Social Housing Corporation	8	8	-	12	10	**10**	-
Treasury Board and Finance							
General government	208	220	12	280	277	**295**	18
	270	**282**	**12**	**360**	**360**	**378**	**18**
Capital Plan							
Education							
School P3 financing costs	22	22	-	27	30	**30**	-
Transportation							
Ring road P3 financing costs	54	54	-	65	72	**72**	-
Treasury Board and Finance							
Direct borrowing for capital purposes	239	185	(54)	138	319	**251**	(68)
	315	**261**	**(54)**	**230**	**421**	**353**	**(68)**
Total Debt Servicing Costs	**585**	**543**	**(42)**	**590**	**781**	**731**	**(50)**

2014-15 FINANCING REQUIREMENTS[a]

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Financing Requirements / Completed to Date							
Direct borrowing for capital purposes	3,662	1,270	(2,392)	3,824	4,883	**3,000**	(1,883)
Re-financing of maturing debt	-	291	291	-	905	**905**	-
Term debt borrowing for provincial corporations:							
Agriculture Financial Services Corporation	259	125	(134)	220	345	**175**	(170)
Alberta Capital Finance Authority	1,425	1,331	(94)	3,738	1,900	**1,655**	(245)
Alberta Petroleum Marketing Commission	75	114	39	-	100	**227**	127
Alberta Treasury Branches	180	200	20	500	240	**650**	410
Total Financing Requirements / Completed to Date	**5,601**	**3,331**	**(2,270)**	**8,282**	**8,373**	**6,612**	**(1,761)**

[a] 2013-14 Actual direct borrowing for capital purposes includes $600 million issued on March 26, 2014, but settled on April 2, 2014. Since December 31 2014, debt has been issued for capital purposes ($1.3 billion), for Alberta Petroleum Marketing Commission ($114 million) and for Alberta Treasury Branches ($450 million).

INVENTORY ACQUISITION

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Environment and Sustainable Resource Development	1	1	-	1	1	**1**	-
Health	34	46	12	44	52	**56**	4
Infrastructure	57	25	(32)	17	73	**64**	(9)
Service Alberta	4	10	6	12	6	**14**	8
Transportation	32	26	(6)	49	50	**50**	-
Other	2	-	(2)	12	2	**2**	-
Total Inventory Acquisition	**130**	**108**	**(22)**	**135**	**184**	**187**	**3**

Capital Plan Highlights

Capital Plan actual results for the first nine months of 2014-15 were lower than estimated in *Budget 2014*, with spending of $4.1 billion $746 million less than expected. This mainly reflects changes in project progress, re-profiling or timing of grants. No projects have been cancelled.

The 2014-15 Capital Plan is forecast at $6.5 billion, a $144 million decrease from budget, primarily due to project re-profiling, partly offset by increases for school projects and grants to municipalities.

Direct borrowing for the Capital Plan is now estimated at $3 billion. This is $1.9 billion lower than budget, due mainly to improved 2013-14 operational results, cash borrowed in 2013-14 but not spent (retained in the Capital Plan financing account), and an increased forecast for available surplus operational cash in 2014-15.

CAPITAL PLAN SUMMARY[a]

(millions of dollars)

	First 9 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
Summary	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Capital Plan Spending	**4,855**	**4,109**	**(746)**	**5,002**	**6,599**	**6,455**	**(144)**
Capital Plan Financing							
Revenue received for capital purposes	354	376	22	491	560	**652**	92
Retained income of funds and agencies	127	115	(12)	50	169	**153**	(16)
Book value of capital asset disposals / other	11	19	8	76	14	**25**	11
Alternative financing (P3s)	155	170	16	332	206	**227**	21
Direct borrowing	3,662	1,270	(2,392)	3,824	4,883	**3,000**	(1,883)
Transfer of surplus operational cash	547	1,487	940	-	767	**1,725**	958
Capital Plan financing account withdrawal / (deposit)	-	673	673	229	-	**673**	673
Total Capital Plan Financing	**4,855**	**4,109**	**(746)**	**5,002**	**6,599**	**6,455**	**(144)**
By Ministry							
Aboriginal Relations	-	6	6	-	-	**11**	11
Agriculture and Rural Development	36	29	(7)	37	40	**45**	5
Culture and Tourism	22	19	(3)	55	51	**48**	(3)
Education	476	478	2	504	624	**846**	222
Energy	116	50	(66)	139	175	**95**	(80)
Environment and Sustainable Resource Development	83	39	(44)	164	111	**142**	31
Health	32	18	(14)	60	61	**38**	(23)
Human Services	3	6	3	5	6	**7**	1
Infrastructure	613	398	(215)	605	1,122	**744**	(378)
Innovation and Advanced Education	243	227	(16)	70	246	**249**	3
Jobs, Skills, Training and Labour	-	-	-	1	1	**1**	-
Justice and Solicitor General	101	77	(24)	56	135	**103**	(32)
Municipal Affairs	1,257	1,429	172	1,357	1,436	**1,869**	433
Seniors	117	67	(50)	46	187	**159**	(28)
Service Alberta	27	19	(8)	38	49	**43**	(6)
Transportation	1,585	1,154	(431)	1,617	1,961	**1,826**	(135)
Treasury Board and Finance	20	22	2	38	27	**27**	-
Legislative Assembly	3	-	(3)	5	4	**4**	-
2013 Alberta flood assistance							
Culture and Tourism	1	1	-	1	2	**1**	(1)
Education	19	-	(19)	13	25	**24**	(1)
Environment and Sustainable Resource Development	25	55	30	175	35	**79**	44
Infrastructure	18	-	(18)	-	24	**5**	(19)
Municipal Affairs	21	-	(21)	12	27	**28**	1
Seniors	3		(3)	-	5	**4**	(1)
Transportation	36	15	(21)	4	46	**58**	12
Mitigation projects	-	-	-	-	200	-	(200)
Total Capital Plan	**4,855**	**4,109**	**(746)**	**5,002**	**6,599**	**6,455**	**(144)**

[a] 2014-15 nine month Estimate and 2014-15 Budget numbers have been restated to reflect transfers between government departments made subsequent to *Budget 2014*, as established by Orders in Council 312, 373, 389 and 472/2014 under the *Government Organization Act*, on July 23, September 15 and 25, and December 4 2014. 2013-14 Actual numbers have been restated on the *Budget 2014* basis, adjusted for transfers between departments made after *Budget 2014*.

ECONOMIC OUTLOOK

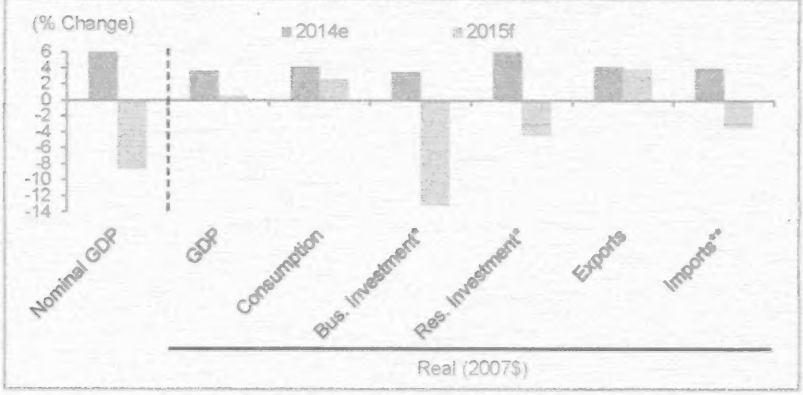
Alberta economy facing headwinds

Energy market conditions have deteriorated rapidly since the *Second Quarter Update*. World oil prices, which have fallen over 50% since June 2014, will act as a brake on Alberta's fast-growing economy. The most significant impact will be on incomes earned in the province. Nominal GDP, a broad measure of income, is forecast to fall over 8% in 2015, with Government of Alberta revenue and corporate profits taking the largest hit. Lower oil prices will also weigh on the value of Alberta's exports and energy investment. Energy producers will pull back on capital spending, which will translate to lower investment activity in the province and weaker labour conditions.

The impact of lower oil prices on real economic growth is expected to be less severe than on incomes. Alberta's real GDP, the volume of goods and services produced, is expected to expand in 2015, but at a much slower pace of 0.6%. This is down from the *Second Quarter* forecast of 2.8%. Strong gains in exports, supported by rising oil production and a lower dollar, are underpinning growth. Households will also contribute through population gains and consumer spending, though at a slower pace than in the last few years. These factors are expected to offset the large drag in investment (Figure 1).

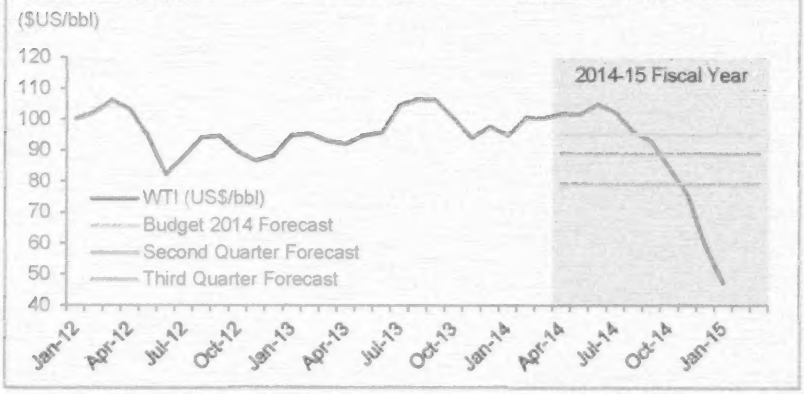
The downshifting of Alberta's economy comes after a robust and prolonged expansion. In 2014, it is estimated that economic growth exceeded 3.5% for the fifth straight year. The year was characterized by record high investment, exceptional growth in exports and population, and a robust labour market. Alberta's strong economic performance in 2014, combined with continued labour market strength in recent months, will provide momentum heading into 2015.

Figure 1. Key Economic Indicators



Source: Alberta Treasury Board and Finance
* Refers to Business Investment and Residential Investment
** Imports subtract from GDP

Figure 2. WTI Price Forecast for 2014-15



Sources: Alberta Energy and Alberta Treasury Board and Finance

Alberta Business Sector

Oil prices plunge

Since the *Second Quarter* update, world oil prices have fallen steeply (see pg. 14-15 for more discussion on oil price movements). As a result, the oil price forecast for 2014-15 has been downgraded, from US$88.88/bbl to US$79.24/bbl (Figure 2). Lower oil prices will weigh heavily on corporate profits, which are forecast to fall sharply in 2015. The light/heavy differential has stayed narrow and relatively stable, supported by strong heavy oil refinery demand, pipeline expansions, and use of crude-by-rail. The 2014-15 WTI-WCS differential forecast remains around US$18/bbl.

Canadian dollar tumbles

The Canadian dollar has continued on a downward trajectory against the US dollar since *Second Quarter*. This is due to several factors, including the strengthening US dollar, weak economic growth in Canada, and falling commodity prices. The Bank of Canada's surprise move to cut interest rates put further downward pressure on

ECONOMIC OUTLOOK

the Canadian dollar. The exchange rate forecast for 2014-15 has been lowered to 88.3 US¢/Cdn$. A weaker dollar bolsters exports and resource revenue.

Lower prices hit investment

Oil and gas investment is expected to decline around 30% in 2015 due to lower oil prices. Producers will focus on more efficient projects and delay spending on exploration. Conventional investment, which is more sensitive to prices than oil sands, will be impacted the most. Weakening cost pressures will partly offset the impact of lower prices for producers. Outside the energy sector, non-residential construction activity has been strong. Elevated building permits late in 2014 provide some momentum heading into 2015.

Export volumes keep rising

Building off an exceptional year in 2014, the volume of exports and manufacturing shipments will expand in 2015. Despite the drop in investment, oil exports are forecast to grow on increasing production, as several oil sands projects under construction are expected to come on stream this year (Figure 3). Other industries, such as petrochemicals, tourism, forestry, and agriculture, should benefit from fewer cost pressures and the pickup in activity in the US. Exporters should also benefit from the lower Canadian dollar.

Household Sector

Labour market cooling

Strong job growth in December and January is providing momentum to the labour market in 2015. Employment is expected to fall well below January levels for the remainder of the year, however, due to declines in oil-related jobs. The average level of employment in 2015 is expected to be only 1% higher than in 2014, a marked slowdown from the 2.2% gain last year. The unemployment rate, which averaged 4.7% in 2014, is forecast to rise to 5.4%, while growth in weekly earnings is expected to moderate to 2.2% after five years of solid growth.

Population growth moderates

Cooling labour market conditions in Alberta and improving prospects elsewhere will temper the province's robust population growth. The province is expected to attract substantially fewer interprovincial migrants in the next couple of years as activity slows, although immigration is expected to remain resilient. Population growth for 2015 is forecast to be 2.0%, down from 2.4% at *Second Quarter*.

Housing market eases

Alberta's housing market remained tight through most of 2014. Strong demand and record low inventories in the major centres spurred double-digit gains in housing starts and put upward pressure on prices, particularly in Calgary. Starts are forecast to fall from 40,600 in 2014 to around 35,000 in 2015 on weaker demand. They will, however, be supported by builders replacing near record low inventories of new homes. Historically low interest rates will also lend support to housing. This forecast is lower than the *Second Quarter* outlook of 36,900 starts for 2015.

Consumer spending continues

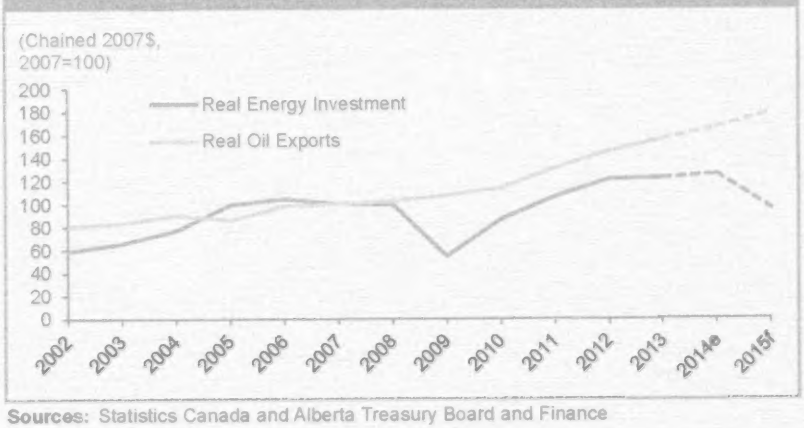
Robust wage growth in Alberta has supported retail sales that continue to outpace the rest of Canada. As the labour market cools in 2015, primary household income growth is expected to ease to 3.1%. Consumer spending is expected to grow, but at a slower pace than in the last few years. Consumer price inflation, which remained elevated for most of 2014, is expected to soften to 1.0% on lower energy prices and weaker economic activity.

External Risks

Led by a stronger US economy, global economic conditions are slowly improving, but with mixed results. Given Alberta's high reliance on trade and commodities, the outlook is subject to a number of risks:

- There is downside risk for Alberta's economy if oil prices fall further or remain exceptionally low for a prolonged period, putting additional downward pressure on economic growth.
- Falling interest rates and diverging monetary policies globally have increased market volatility. A rebound in the Canadian dollar or a drop in equity markets could weaken growth prospects.
- On the upside, an improvement in oil prices should lift economic activity and support energy investment.

Figure 3. Alberta Energy Investment and Oil Exports



Sources: Statistics Canada and Alberta Treasury Board and Finance

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2014–15 9 Month Actual	2014–15 Fiscal Year Forecast			
		Budget	1st Quarter	2nd Quarter	3rd Quarter
Prices					
Crude Oil Prices					
WTI (US$/bbl)	91.10	95.22	96.69	88.88	79.24
Alberta Wellhead (Cdn$/bbl) [a]	88.41	88.02	91.54	88.02	75.34
WCS @ Hardisty (Cdn$/bbl)	80.30	77.18	80.64	78.14	68.88
Natural Gas Price					
Alberta Reference Price (Cdn$/GJ)	3.81	3.29	4.14	4.01	3.63
Production					
Conventional crude oil (000s barrels/day)	n/a	583	580	582	585
Raw bitumen (000s barrels/day)	n/a	2,347	2,344	2,300	2,346
Natural gas (billions of cubic feet)	n/a	3,737	3,837	4,122	4,700
Interest rates					
3-month Canada treasury bills (per cent)	0.92	1.00	1.00	0.95	0.85
10-year Canada bonds (per cent)	2.15	3.05	2.70	2.25	2.00
Exchange Rate (US¢/Cdn$)	90.5	91.0	92.5	90.5	88.3

Calendar Year Assumptions	2014 Estimates	2015 Forecast			
		Budget	1st Quarter	2nd Quarter	3rd Quarter
Gross Domestic Product					
Nominal (millions of dollars)	359,084	368,690	371,702	366,118	328,394
per cent change	6.2	4.7	3.3	0.9	-8.5
Real (millions of 2007 dollars)	313,852	318,162	321,009	323,284	315,831
per cent change	3.6	3.0	3.1	2.8	0.6
Other Indicators					
Employment (thousands)	2,275	2,317	2,325	2,321	2,298
per cent change	2.2	2.2	2.2	2.0	1.0
Unemployment rate (per cent)	4.7	4.3	4.5	4.5	5.4
Average Weekly Earnings (per cent change)	4.0	3.5	3.6	3.2	2.2
Primary Household Income (per cent change)	6.4	6.2	6.4	6.0	3.1
Net Corporate Operating Surplus (per cent change)	8.7	4.0	-5.6	-17.1	-58.7
Housing starts (number of units)	40,590	36,800	37,100	36,913	35,000
Alberta Consumer Price Index (per cent change)	2.6	2.1	2.5	2.1	1.0
Population (July 1st, thousands)	4,122	4,242	4,263	4,219	4,206
per cent change	2.9	2.5	2.8	2.4	2.0

[a] Refers to the average price per barrel of Alberta light, medium and heavy oil.

OIL PRICES

The current oil price shock in historic context

The recent drop in oil prices has important implications for crude oil producers, the provincial government, and Alberta's economy. The decline will create budgetary challenges as energy royalties and income tax receipts wane.[1] This feature discusses the current imbalance in crude oil markets, and compares it with previous periods of significant market fluctuations (Figure 1).

The current slump

After peaking in June 2014 at $108/bbl, world oil prices have plummeted by over 50%. Prices have been pulled down by a combination of strong supply growth and modest global oil demand growth. Increasing production outside of OPEC, primarily from US shale oil developments, has been the main source of supply growth. The restoration of production in Libya in the past year also contributed to the supply glut. Softening demand for fuel in China, the Eurozone, and a handful of emerging markets slowed the growth of global oil consumption. This led to an imbalance between supply and demand, estimated at around 1-2 million barrels per day (Figure 2), and caused prices to decline. A decision by OPEC in November to maintain its production, rather than intervening to support prices by reducing output, reinforced the steep downward trajectory. By January 2015, WTI was trading below US$50/bbl for the first time since the Great Recession.

The current correction is not without precedent. The combination of oversupply and weak demand bears a resemblence to the price shock in the mid-1980s. In fact, there have been several instances when oil prices have fallen in the past several decades, sometimes rapidly (Figure 3).

1 For more details about the revenue challenges that the Government of Alberta government will face, see Backgrounder on *Alberta's Fiscal Situation* (January 15, 2015).

Misaligned market in mid-1980s

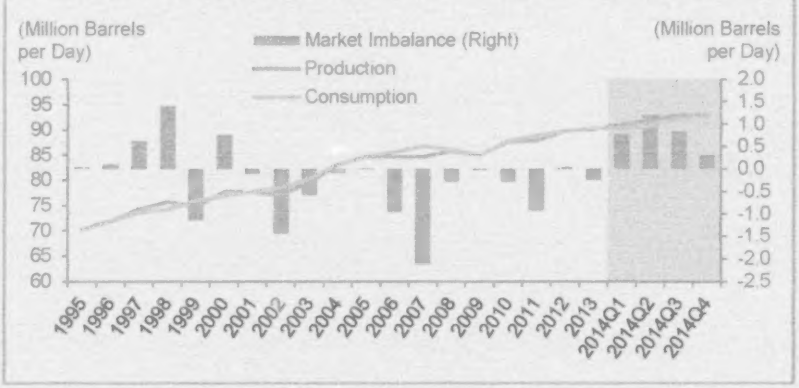
The first major oil price decline occurred in late 1985. Over a decade of market turbulence led to shrinking demand for oil alongside growing supply. After peaking in April 1980, oil prices steadily declined until late 1985, before plunging by 52% and bottoming out in 1986.

The events leading to the plunge began with the price of oil rising over ten-fold between 1973 and mid-1980. This was precipitated by OPEC's oil embargo in 1973 and continued through the end of the Iranian Revolution in 1979. Higher prices due to market instability encouraged the search for new sources of crude outside of OPEC, including offshore drilling. At the same time, OPEC's policy of restricting output resulted in waning market share for the cartel. Punitively high prices in the late 1970s slowed economic activity and incentivized improved fuel efficiency. By the early 1980s, there was a discernible surplus of crude in the

Figure 1. Timeline of WTI Spot Price, 1970-2015

Source: Energy Information Administration

Figure 2. Global Crude Production and Consumption



Source: Energy Information Administration

OIL PRICES

market, mainly caused by shrinking demand in industrialized countries. Inflation and high interest rates also reduced the demand for crude. Saudi Arabia increased its production in hopes of recovering market share, inundating the market with even more supply. These events led to the collapse in world oil prices.

Asian financial crises and 9/11

The next occasion when oil prices declined markedly was between 1997 and 1998. During this period, prices fell by over 50% to the lowest level since 1986. The decline can be attributed to the Asian financial crises that struck in July 1997. It affected several emerging economies including Thailand, South Korea and Indonesia. The slowdown weighed on the demand for oil in the region, which had until then been a major engine of global economic growth. Continued stagnation in Japan also contributed to weaker oil demand. Prices fell as inventories rose to levels which outstripped demand.

As the turbulence stemming from the Asian financial crises subsided and global demand firmed, oil prices temporarily recovered. However, the recovery in crude markets was derailed by the September 11th attack in 2001. The attacks triggered fears of a recession and caused the price of oil to fall by 30% within three months.

Rapid rise through the 2000s

Crude oil prices commenced a meteoric rise through the mid-2000s. They increased seven-fold, reaching the market's zenith in mid-2008 at $145/bbl. Demand from emerging markets grew markedly, led by the Chinese economy, which saw annual GDP growth rates between 8% and 14% for over a decade. Other factors contributing to the run up in oil prices include a weaker US dollar and a string of geopolitical conflicts.

Collapse during the Great Recession

Beginning in mid-2008, prices began to fall, and in the following six months they imploded, losing 71%. The drop was mainly demand driven, caused by the Great Recession. In the midst of the recession, investors increasingly viewed oil prices as being too high given the amount of available supply.

Oil prices began to slide in July 2008, causing many investors to face margin calls on their long positions. As the value of other investments like stocks and derivatives declined, investors faced tightening liquidity constraints. The financial stress soon culminated in a forced sell-off as investors closed out their long positions. Oil prices bottomed out in mid-December 2008 at $30/bbl. The response was to take crude supplies off the market into storage in the short term, which supported prices as demand recovered.

Over the next four years, prices fluctuated between $80 and $105 per barrel, before the current shock.

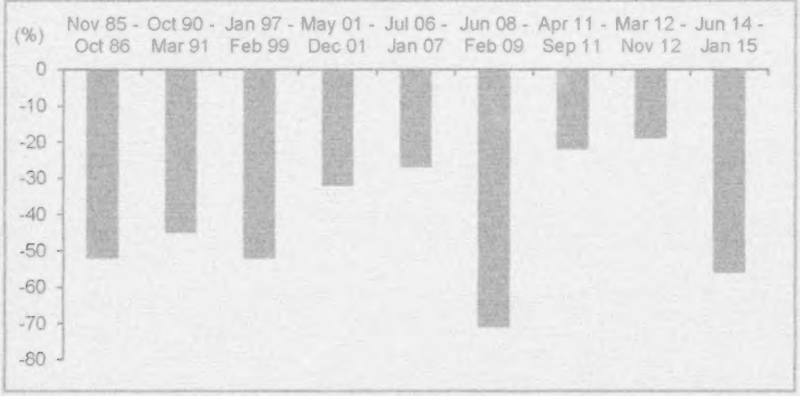
What makes this time different

Although there are some similarities between the current price correction and previous ones, there are also key differences. Marginal extraction costs are significantly higher than in the past, with few sources of cheap supply remaining. In addition, current excess supply on the market can be attributable to price levels that encouraged the extraction of higher cost crude, rather than shrinking demand.

In the 1970s and 1980s, exploration principally tapped 'light-crude' oil wells which utilized conventional extraction processes. As the demand for oil has grown, incremental increases in supply have become more expensive to produce. Much of the new supply has come from the US shale developments, Canada's oil sands, and deepwater exploration (eg, Brazil). This type of exploration is more capital intensive, with higher break-even and ongoing extraction costs. Consequently, the supply of crude that has come on-stream over the past decade requires higher oil prices to support continued production growth and profitability.

For the crude market to re-balance, some of the higher-cost supply must be withdrawn from the market as crude oil demand continues to grow. Provided that demand continues, oil prices should improve as market balance is restored.

Figure 3. Peak-to-Trough Decline in Monthly WTI Oil Prices



Source: Energy Information Administration